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January 2, 2013

TO: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **INSTITUTE FOR BLACK PARENTING, INC. – A DEPARTMENT OF CHILDREN AND FAMILY SERVICES FAMILY PRESERVATION PROGRAM PROVIDER – CONTRACT COMPLIANCE REVIEW**

At the request of the Department of Children and Family Services (DCFS), we completed a review of Institute for Black Parenting, Inc. (IBP or Agency), which covered a sample of transactions from Fiscal Years (FYs) 2010-11 and 2011-12. DCFS contracted with IBP, a non-profit organization, to provide Family Preservation (FP) Program services to eligible children and their families who were experiencing challenges related to child abuse, neglect, and/or exploitation. FP Program services include conducting in-home counseling sessions, performing clinical assessments, and providing emergency housing and transportation assistance. IBP's FP Program contract expired in June 2012. Presently, the Agency also has a Foster Family Agency (FFA) service contract with DCFS.

The purpose of our review was to determine whether IBP appropriately accounted for and spent FP Program funds to provide the services outlined in their County contract. We also evaluated the Agency's accounting records, internal controls, and compliance with their FP contract and other applicable guidelines.

DCFS paid the Agency approximately $596,000 for the FP Program on a fee-for-service basis for FY 2011-12. IBP's administrative office is located in the Second Supervisorial District.

Results of Review

Our review indicates that IBP has significant financial issues. The Agency's audited financial statements for the last three calendar years included going concern qualifications, indicating that the Agency may have difficulty continuing to operate. On the year ended December 31, 2011 audited financial statement, it indicated IBP had an operating loss of $73,768, had $2,001,061 in liabilities in excess of its assets (negative net assets), and owed $1,641,981 for delinquent payroll taxes, penalties, and interest.

Our review also indicated that the Agency paid nine (50%) of 18 non-payroll expenditures reviewed late, resulting in late payment fees and service cancellation notices from several vendors. IBP's accounting records for the year ended December 31, 2011 also indicated that the Agency had borrowed $105,434 from its Assistant Executive Director, which IBP management indicated was used to pay the Agency's operating expenses. We previously reported on IBP's financial issues in our May 9, 2012 report on the Agency's FFA contract.

Based on IBP's significant financial issues, we question whether DCFS should continue its FFA contract with the Agency. IBP has submitted a plan to DCFS indicating how it plans to address its financial issues. We understand that DCFS is currently reviewing IBP's plan to determine whether the Department will continue to do business with IBP. DCFS should also place the Agency in the County's Contractor Alert Reporting Database.

Our review also indicated that IBP did not always comply with all the requirements of its County contract. For example, IBP:

- Did not have written loan agreements for loans from the Agency's Assistant Executive Director.

- Did not have documentation for $61,285 administrative expenditures that were charged to the FP Program in FY 2010-11, and inappropriately allocated $6,428 in depreciation expense to the FP Program in FY 2010-11. The Agency also inappropriately charged $1,058 (3%) of the $32,338 non-payroll expenditures reviewed to the FP Program in FY 2011-12.

- Did not maintain a complete fixed asset and equipment list; could not locate seven (70%) of the ten assets reviewed; and did not conduct a complete annual inventory.

- Could not determine whether they had any unspent revenue for FY 2010-11 that should be returned to DCFS.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We provided our draft report to IBP and DCFS on September 24, 2012. The Agency did not submit a corrective action plan on how they plan to implement the recommendations in our report. DCFS will follow up with IBP to ensure the Agency submits a corrective action plan to DCFS.

We thank IBP management for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Don Chadwick at (213) 253-0301.

WLW:JLS:DC:AA:JS

Attachment

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, DCFS
Barry A. Snell, Board Member, IBP
Zena F. Oglesby, Jr., Executive Director, IBP
Public Information Office
Audit Committee

FINANCIAL VIABILITY

Institute for Black Parenting's, Inc. (IBP or Agency) audited financial statements for the last three calendar years included going concern qualifications, indicating that the Agency may have difficulty continuing to operate. The going concern qualifications were due to annual operating losses of $202,874, $246,295, and $73,768, over the three years. In addition, IBP's audited financial statements for the year ended December 30, 2011 indicated the Agency had $2,001,061 in liabilities in excess of its assets (negative net assets), and owed $1,641,981 in delinquent payroll taxes, penalties, and interest. We previously reported on IBP's financial issues in our May 9, 2012 report on the Agency's Foster Family Agency (FFA) service contract.

We also noted that the Agency had difficulty paying its bills on time. IBP paid nine (50%) of the 18 non-payroll expenditures reviewed late. As a result, IBP incurred late payment fees, and received service cancellation notices from several vendors. In addition, IBP's accounting records indicated that the Agency had borrowed $105,434 from its Assistant Executive Director to cover its operating expenses. The loans from the Assistant Director were not supported by written agreements identifying the terms and purpose of the loans, the loan amounts, or the dates of the loans.

IBP's Family Preservation (FP) Program contract expired on June 30, 2012, and was not renewed. However, the Agency still has a FFA contract with DCFS.

Based on IBP's significant financial issues, we question whether DCFS should continue its FFA contract with the Agency. IBP has submitted a plan to Department of Children and Family Services (DCFS or Department) indicating how it plans to address its financial issues. We understand that the DCFS is currently reviewing IBP's plan to determine whether the Department will continue to do business with IBP.

Recommendation

1. **If DCFS continues contracting with IBP, IBP management ensure they have written agreements for all loans.**

STAFF QUALIFICATIONS

Objective

Determine whether IBP's staff had the qualifications required by the County contract.

Verification

We reviewed the personnel files for eight (80%) of IBP's ten employees, and two (25%) of eight contracted employees who worked on the FP Program.

Results

IBP staff had the required qualifications.

Recommendation

None.

CASH/REVENUE

Objective

Determine whether IBP recorded revenue in the Agency's financial records properly, deposited cash receipts into the Agency's bank accounts timely, and had bank account reconciliations reviewed and approved by Agency management.

Verification

We interviewed IBP management, reviewed the Agency's financial records, and requested the Agency's bank reconciliations.

Results

IBP recorded revenue in their financial records properly, and deposited cash receipts into the Agency's bank account timely. However, IBP did not complete monthly bank reconciliations as required. IBP management indicated that they had not reconciled the Agency's bank accounts since December 2010.

Recommendation

2. If DCFS continues to contract with IBP, Agency management ensure bank reconciliations are completed timely.

EXPENDITURES/PROCUREMENT

Objective

Determine whether expenditures charged to the FP Program were allowable under the County contract, properly documented, and accurately billed.

Verification

We interviewed IBP's personnel, and reviewed financial records for $32,338 in non-payroll expenditures that were charged to the FP Program from July 2011 through March 2012.

Results

IBP inappropriately charged $1,058 (3%) of the $32,338 in non-payroll expenditures reviewed to the FP Program. Specifically, the Agency:

- Charged $865 in unallowable utilities and consulting expenditures to the FP Program. We expanded our review, and noted an additional $945 in unallowable utility expenditures (e.g., late fees, non-FP related utility costs, etc.).

- Charged $193 in unsupported telephone and office supply expenditures to the FP Program.

In addition, during our review of IBP's Fiscal Year (FY) 2010-11 close-out report, we noted that the Agency did not have documentation to support $61,285 in administrative expenditures charged to the FP Program. IBP also inappropriately allocated 100% of its vehicle depreciation expense, $6,428, to the FP Program, instead of allocating the expense among the Agency's programs.

Recommendations

IBP management:

3. **Repay DCFS $61,478 ($61,285 + $193), or provide DCFS supporting documentation for the expenditures.**

4. **Reallocate the vehicle depreciation expense among all benefitted programs, and repay DCFS any overbilled amounts.**

5. **Repay DCFS $1,810 ($865 + $945) for the unallowable expenditures.**

6. **Before entering into any new contracts with the County, develop procedures to ensure that all non-payroll expenditures billed to the County are allowable and properly documented.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether IBP's fixed assets and equipment purchased with FP funds were used for the Program and were adequately safeguarded.

Verification

We interviewed Agency personnel, and reviewed the Agency's fixed assets and equipment inventory listing. We also performed a physical inventory of ten assets purchased with FP Program funds in prior years to verify the assets exist and were being used as required.

Results

We noted significant weaknesses in IBP's controls over fixed assets and equipment. Specifically:

- IBP's fixed asset and equipment list did not indicate the purchase date, acquisition cost, and source of funds for all assets.
- We could not locate seven (70%) of the ten assets reviewed.
- IBP did not conduct a thorough annual inventory of fixed assets and equipment as required. IBP indicated that they conducted an inventory in September 2011. However, the inventory IBP conducted was based on an inaccurate fixed asset and equipment list.

Recommendation

7. **Before entering into any new contracts with the County, IBP management develop procedures to maintain an accurate fixed asset and equipment list, and conduct annual inventories of fixed assets and equipment.**

PAYROLL AND PERSONNEL

Objective

Determine whether IBP charged payroll costs to the FP Program appropriately, and obtained required criminal background clearances and employment eligibility for the Agency's FP Program staff.

Verification

We traced the payroll costs for six employees, totaling $6,816, for April 2012 to the Agency's payroll records and time reports. We also interviewed IBP staff, and reviewed personnel files for eight employees and two contract employees who worked on the FP Program.

Results

IBP charged payroll costs to the FP Program appropriately, and obtained background clearances and employment eligibility for their FP Program staff.

Recommendation

None.

COST ALLOCATION PLAN

Objective

Determine whether IBP's Cost Allocation Plan (Plan) was prepared in compliance with their County contract, and was used to allocate shared costs appropriately.

Verification

We reviewed the Agency's Plan, and a sample of expenditures from FYs 2010-11 and 2011-12.

Results

IBP's Plan was prepared in compliance with the County contract. However, IBP did not allocate shared non-payroll expenditures to the FP Program appropriately as discussed earlier.

Recommendation

Refer to Recommendation 4.

CLOSE-OUT REVIEW

Objective

Determine whether IBP had any unspent revenue during FY 2010-11 that should be returned to DCFS.

Verification

We traced the total revenues and expenditures from IBP's FY 2010-11 close-out report to the Agency's accounting records, and to DCFS' payment records.

Results

IBP's FY 2010-11 close-out report indicated that they did not have any unspent revenue for the year. However, the expenditures reported on the close-out report, including the $61,285 in administrative expenditures noted above, did not reconcile to the Agency's accounting records, and the Agency inappropriately allocated $6,428 in vehicle depreciation expense to the FP Program as noted above. IBP management needs to revise their accounting records, provide DCFS with a revised close-out report, and return any unspent revenue.

Recommendation

8. **IBP management revise their accounting records, provide DCFS with a revised close-out report, and return any unspent revenue.**